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State Administration and Veterans' Affairs Interim Committee

63rd Montana Legislature

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September 16, 2014

TO: Legislative Finance Committee

FROM: Sheri Scurr, Legislative Research Analyst
Staff, State Administration and Veterans' Affairs Interim Committee (SAVA)

RE: Update on SAVA's Pension Oversight Activities

Committee Pension Bill

Since your last meeting, SAVA has continued work on its bill to revise contributions in the Public Employees' Retirement System (PERS). This bill is being sponsored by Sen. Sue Malek. The bill will take 1% of the current employee contribution and 1% of the current employer contribution and, instead of terminating the contributions as provided in current law, the bill will make the contributions adjustable. Under the bill (LC0144), the adjustable 1% contributions would be decreased if the amortization schedule is lower than 15 years and the 3-year average funded ratio is 90% or higher. The contributions would be increased if the amortization schedule is below 20 years and the three-year average funded ratio is 80% or lower. The bill was drafted to mirror a similar provision passed last session for the Teachers Retirement System (TRS).

Additionally, the bill was to address the allocation of employer contributions in the PERS Defined Contribution (DC) plan and the University System Retirement Program (URP) to fix a drafting oversight from a previous session and also specify that when the Plan Choice Rate liability is fully paid off for the PERS DC plan, the related contribution amount will be allocated to DC plan and URP member accounts.

The tax counsel for the Montana Public Employees' Retirement Administration (MPERA) informed SAVA of concerns that the bill as drafted did not clearly specify how the contribution adjustments should be calculated. Additionally, MPERA conveyed concerns about the actuarial soundness of the PERS DC disability plan and asked SAVA to remove language in the bill that redirected contributions from the disability plan to member accounts. Finally, combining the adjustable rate provisions with revisions to contribution allocations in the DC and URP plan made the bill even more complex.

As a result, SAVA instructed staff to revise the bill to provide a specific formula for the adjustments, put the DC plan contribution allocation revisions into a separate bill, and remove the reallocation of contributions from the DC disability plan.

With respect to a specific formula for calculating the adjustments, three options have been presented to Sen. Malek so far. Each option provides that the employee and employer contribution would be adjusted equally.

1. Adjust the contributions by whatever amount would result in an amortization period of 17.5 years (the midpoint between the high of 20 years for an increase and the low of 15 years for a decrease).
2. Adjust the contributions by a combined 0.1% (.05% for the employer and .05% for the employee) for each year the amortization schedule is above 20 years or below 15 years.
3. Adjust the contributions by a combined 0.1% for each year the funded ratio is over 90% or less than 80%.

A separate bill (LC0332) will revise the allocation for the employer contributions in the DC plan when the Plan Choice Rate is paid off and that will retroactively fix a drafting oversight. Pursuant to a concern raised at your last LFC meeting by Rep. Cook, SAVA agreed to include in the bill specific language requiring that MPERA verify that the Plan Choice Rate liability has been fully paid off before the contributions are redirected to the member accounts.

Retirement Board Bill Proposals Authorized for Drafting

At its August 15, 2014, SAVA also reviewed the agency bill draft proposals of the Public Employees' Retirement Board (PERB) and the Teachers' Retirement Board (TRB). Charts summarizing these agency bill draft proposals are attached. The committee authorized each of these proposals for drafting purposes.

November Meeting Focuses on Pension Oversight

Section 5-5-228, Montana Code Annotated provides the following:

- (2) The committee shall:
 - (a) consider the actuarial and fiscal soundness of the state's public employee retirement systems, based on reports from the teachers' retirement board, the public employees' retirement board, and the board of investments, and study and evaluate the equity and benefit structure of the state's public employee retirement systems;

- (b) establish principles of sound fiscal and public policy as guidelines;
- (c) as necessary, develop legislation to keep the retirement systems consistent with sound policy principles; and
- (d) publish, for legislators' use, information on the public employee retirement systems that the committee considers will be valuable to legislators when considering retirement legislation.

The committee's November agenda includes informational briefings and action items for each of these duties. The latest draft of the November 17 agenda is attached.

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STATE ADMINISTRATION AND VETERANS AFFAIRS (SAVA) REQUEST**Proposer: Dore Schwinden, Executive Director****Organization: Montana Public Employees' Retirement Board**

EPP #	Short Title	Rationale	MCA	SAVA ACTION
		What do you want legislation to do?	What sections would need to be amended?	
Priority #1	Federal Qualifications Bill	Ensure retirement plans remain tax qualified by adopting requirements related to rollovers, retirement options, 415 limits, and the HEART Act	Title 19, chapter 2, part 10; Title 19, chapter 50	
Priority #2	Sheriffs' Retirement System (SRS) Funding	Make SRS actuarially sound for the first time in many years. On June 30, 2004 the shortfall was 2.15% of payroll. On June 30, 2013 the shortfall was 5% or \$3.05 million.	19-7-402, - 403 and -404, MCA	
Priority #3	Game Wardens' and Peace Officers' Retirement System (GWPORS) Funding	Make GWPORS actuarially sound for the first time in many years. On June 30, 2004 the shortfall was 0.23% of payroll. On June 30, 2013 the shortfall was 2.95% or \$1.15 million.	19-8-501, -502 and -504, MCA	
Priority #4	Pay-off the DCRP's Plan Choice Rate-Unfunded Actuarial Liability (PCR-UAL)	The PCR-UAL is the actuarial cost to the PERS DB plan created when the PERS DC plan was adopted. The PCR-UAL has steadily decreased and is now estimated at an amount (approximately \$3.6 million on June 30, 2015) that the State should consider paying off. Employer contributions can then be reallocated.	19-3-2117 and -2121, MCA	
Priority #5	Allocate additional PERS employer contributions in the Montana University System -Retirement Program (MUS-RP)	Additional PERS employer contributions were adopted in 2013. For PERS-DCRP members, the additional contributions were directed to the PERS-DBRP UAL. The Bill inadvertently omitted treatment of the additional contributions for members of the MUS-RP. The Board adopted ARM 2.43.3601 directing the MUS-RP contributions to the PERS – DBRP UAL as well, with the guarantee of legislation to address the issue in 2015.	19-21-214, MCA	

Priority #6	Transfer dispatchers from PERS to SRS	This is the 4 th session for this proposal. The Board believes including dispatchers in a 20 year system, similar to other public safety officers, is an issue of fairness and equity.	Title 19, Chapter 7 (19-7-101, -301 and -302 at a minimum)	
Priority #7	General Revisions	Clarification of statutes related to all MPERA-administered systems. The design of MPERA's new information technology system has unearthed several statutes that require clarification	Title 19, chapters 2, 3, 5, 6, 7, 8, 9 and 13; Title 19, chapter 50. See chart.	

Teachers' Retirement System 2015 Legislative Proposals

Proposal Number	Short Title	Bill Section	MCA Sections	Rationale
1	Revise teachers' retirement system administrative and tax qualification laws	1	19-20-401	Clarify that following first retirement, a member returning to active member status under a second benefit is not eligible to make a redeposit or purchase service unless it for active military service pursuant to federal law - USERRA
		2	19-20-402	Make language consistent in all provisions for purchase of creditable service when a member has 5 years of membership service.
		3	19-20-404	Make language consistent in all provisions for purchase of creditable service when a member has 5 years of membership service.
		5	19-20-410	Make language consistent in all provisions for purchase of creditable service when a member has 5 years of membership service.
		4	19-20-405	Clarify that the aggregate number of years of creditable service that may be credited under 19-20-402 through 19-20-404, 19-20-408, 19-20-410, 19-20-410(1), and 19-20-426 may not exceed 5 years.
		6	19-20-702	Clarify that a TRS retiree may revert to the normal form benefit and potentially make a new joint annuitant designation only if the original joint annuitant has no further legal right or interest to receive any benefits on behalf of the member. These amendments do not modify legal rights or obligations or change how the provisions have routinely been applied by TRS.
		7	19-20-705	Establish a statute of limitations on actions taken by TRS to recover overpaid benefits, unpaid employer contributions and unpaid employee contributions.
		8	19-20-715	Clarify that the 10% cap on salary increases applies to all years of compensation used to calculate average final compensation. Removes unnecessary reference to "3 years". Average final compensation will be calculated based on membership tier (3 or 5 years).
		9	19-20-718	HEART Act amendment. IRS qualification standards require differential pay to active duty military members be treated as earned compensation for pension purposes. Exact language from agreed to voluntary correction plan approved by IRS in 2013.
		10	19-20-904	Corrects reference in current statute regarding earnings limitations for disability retirees from "median salary" to "median average final compensation". Median salary was never intended and has never been applied by TRS.
		11	19-20-1001	Provides for the same monthly benefits in lieu of a refund of contributions to the beneficiary of a Tier Two member as are provided for Tier One members. Current language requires death of a Tier Two member within one year of last active service in order to provide a monthly benefit to Tier Two beneficiary.

Proposal Number	Short Title	Bill Section	MCA Sections	Rationale
1	Revise teachers' retirement system administrative and tax qualification laws	12	19-20-1101	Clarify that payment of an amount withheld from a retiree's monthly benefit and remitted to the retiree's former employer to pay the premium for employer-sponsored retiree health benefits will only be sent only to the employer – it will not be sent to the insurance carrier.
		13	Retro Effective Date	Necessary to make the HEART Act provision in Section 9 effective retroactive to January 1, 2009, the date it is required to be effective for IRS qualification purposes.
		14	Effective Date	July 1st effective date so plan terms become effective concurrent with the beginning of a new fiscal year for TRS and its employers.
2	Increase university supplemental contribution rate to teachers' retirement system	1	19-20-621	Section 19-20-621, MCA, requires each employer within the university system with employees participating in the optional retirement program to contribute to TRS a supplemental employer contribution sufficient to amortize, by July 1, 2033, the past service liability of the teachers' retirement system for the university system members who do not participate in TRS. The law also requires that the supplemental rate be periodically reviewed and updated. Based on the 2012 valuation of the university supplemental rate, the current rate needs to be increase from 4.72% to 9.04%; however, <u>the actual rate required will not be known until after the July 1, 2014 valuation has been completed.</u>



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AGENDA

as of 9/2/14

Meeting #9 - Monday, November 17, 2014

Room 137, Capitol Bldg., Helena

Please note: all times are approximate and subject to change

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| 8:30 a.m. | 1. Call to order and roll call - Sen. Dee Brown, Presiding Officer |
| 8:35 | 2. Review of Information Available on Pension Plan Green Sheets <ul style="list-style-type: none">a. Sheri Scurr, Legislative Research Analystb. Committee questions |
| 8:45 | 3. Teachers' Retirement System - Actuarial Valuation Results <ul style="list-style-type: none">a. Shawn Graham, Executive Directorb. Committee questions |
| 9:15 | 4. Montana Public Employees' Retirement Administration - Actuarial Valuation Results for MPERA Systems <ul style="list-style-type: none">a. Dore Schwinden, Executive Directorb. Committee questions |
| 10:15 | BREAK |
| 10:30 | 5. Board of Investments Reports <ul style="list-style-type: none">a. David Ewer, Executive Director and Cliff Sheets, Chief Investment Officer<ul style="list-style-type: none">(i) Brief review of annual report relevant to pension fund investments(ii) Most recent information on investment rate of return on pension fundsb. Committee questions |
| 11:15 | 6. Overview of Pension Policy Principles as Guidelines <ul style="list-style-type: none">a. Sheri Scurr, Legislative Research Analystb. Committee questionsc. Public commentd. Committee work session<ul style="list-style-type: none">→ <u>Action Item</u>: What pension policy principles would SAVA like to adopt as guidelines for legislators to consider when acting on pension bills? |
| 11:45 | 7. Review of Legislator's Guide to Montana's Pension Plans <ul style="list-style-type: none">a. Sheri Scurr, Legislative Research Analystb. Committee questionsc. Public commentd. Committee work session<ul style="list-style-type: none">→ <u>Action Item</u>: Does SAVA want to have a Legislator's Guide published and if so, what revisions or updates would SAVA like to see in the Guide? |

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AGENDA
State Administration and Veterans' Affairs Interim Committee
November 17, 2014

- 12:15 p.m. LUNCH
- 1:15 p.m. **8. Review of Legislative Staff Analysis Templates for Pension Bills**
- a. Legislative Fiscal Division (TBD)
 - b. Sheri Scurr, Legislative Research Analyst
 - c. Committee questions
 - d. Public comment
 - e. Committee work session
 - Action Item: Does SAVA want a special staff analysis for pension bills, just certain pension bills, or only upon request? If so, does SAVA have any changes on the proposed templates?
- 2:00 **9. Committee Bills - LC144 and LC332 - Revising contributions in PERS**
- a. Sen. Malek/Sheri Scurr - review of changes
 - b. Committee questions
 - c. Public comment
 - d. Committee work session
 - Action Item: Does SAVA approve LC 144 and LC 332 as committee bills?
- 2:30 BREAK
- 2:45 **10. Committee Bill - LC143 - Revising Election Laws**
- a. Rep. Bennett/Sheri Scurr - review of changes
 - b. Committee questions
 - c. Public comment
 - d. Committee work session
 - Action Item: Does SAVA approve LC 143 as a committee bill?
- 3:15 **11. Veterans Outreach**
- a. Joe Foster, Administrator, Montana Veterans' Affairs Division
 - Response to Sen. Brown's request for Montana veteran demographics
 - b. Casey Barrs, Legislative Research Analyst
 - Overview of HJR 30 study resolution final report - inventory of benefits
 - c. Sheri Scurr, Legislative Research Analyst
 - Overview of bill drafts developed from stakeholder and public input
 - d. Public comment
 - e. Committee work session
 - Action Item: Approval and/or revision of any bill drafts on veteran outreach
- 4:00 **12. Rule review activity - Ginger Aldrich**
- 4:15 **13. General public comment - any matter under the Committee's jurisdiction**
- 4:30 Wrap up
Adjournment

PLEASE NOTE: The Montana Legislative Services Division will make reasonable accommodations for persons with disabilities who wish to participate in this public meeting. If you require an accommodation, please contact Sheri Scurr at 406-444-3596 or sscurr@mt.gov at least 5 working days before the meeting date to discuss the nature of the accommodation you need.